

ILEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2019 MID-YEAR REVIEW



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1. Highlights and Key Findings

Enterprise iLembe, in partnership with the iLembe Chamber of Commerce, Industry & Tourism, collaborate to produce the iLembe Business Confidence Index (iBCI), aimed at providing a biannual picture of business confidence in the iLembe District, as well as an overall business outlook.

The iBCI is a hybrid index derived from, firstly, a biannual business survey conducted in the iLembe district and secondly, a weighted index of financial and economic activity variables.

- Business confidence in the iLembe District has shown a further increase in the 1st half of 2019 to record the highest level of business confidence in the district in two years.
- The combined hybrid iBCI (i.e. both the survey and activity indices) for this period showed a positive adjustment of 1.7 index points, compared to the 2nd half of 2018. The index has now gained a moderate 2.7 points since its lowest level ever, recorded in the 2nd half of 2017.
- The iBCI 2019 Mid-Year was recorded at 45.4 index points, still remaining entrenched in negative territory, i.e. below the neutral level of 50 index points.
- The 42.1 index points, of the survey component, is still a considerable 10.3 index points below the 1st half of 2017, the highest ever recorded survey index.
- *Financial & Business Services, incl IT & Communications* featured as the most confident **economic sector**.
- The *Agriculture, Forestry, Hunting* sector remained the second most confident sector, with confidence continuing to be negatively affected by policy uncertainty around, and the impact of, expropriation without compensation, the level of the sugar price and sugar imports especially. On the positive side, opportunities to diversify revenue opportunities through alternative crops and renewed interest in ethanol contributed to the upbeat sentiment of this sector.
- *Construction, Property Development, Property Sales* sector recorded increased business confidence from the previous half-year period and is now the 3rd most confident sector.
- *Manufacturing, Assembly* is the 4th most confident sector, having been the most confident sector a mere 18 months ago. The period preceding the May 2019 elections saw significant disruption to business operations and damage to industrial property in the wider Isithebe region, primarily related to political discord prior to the elections.
- Confidence amongst businesses in this sector was not aided by the conclusion of the Whirlpool sale of its South African operations, and the announcement by at least one significant employer that it is discontinuing its operations in Isithebe.
- Business sentiment in the *Wholesale, Retail, Vehicle Trade* sector was underpinned by ongoing concerns about the size of the local market, with the restaurant/food sectors being singled out. The high cost of retail space, and the cost of amenities and level of municipal property rates exacerbated the pressure on businesses operating in this sector.

- The negative confidence surrounding the *Tourism, Catering, Accommodation, Property Management* sector prevailed, with this sector dropping to the 2nd least confident sector.
- The renewed targeting of HGV and long-distance truck drivers, road blockages, and the impact of poorly maintained roads on the cost of vehicle maintenance have contributed to the *Transport, Warehousing, Storage* sector being the least confident sector, dropping from the most confidence sector in the previous period.
- **Regionally**, the two smaller local municipalities of Maphumulo and Ndwedwe were the most confident.
The Mandeni Local Municipality was the least confident region in the district, with one respondent summarising the sentiment as *“the worst market conditions in (the) last 25 years”*.
- The **business outlook** for the 6-month period July – December 2019 was recorded at a positive, two-year high of 54.1, a much-needed retort to the negative sentiments expressed through the Survey and the Activity Index components of the iBCI.
- The iBCI **Activity Index** lost .6 index points, from the previous period, to record a negative 48.7 index points.

SACCI BCI

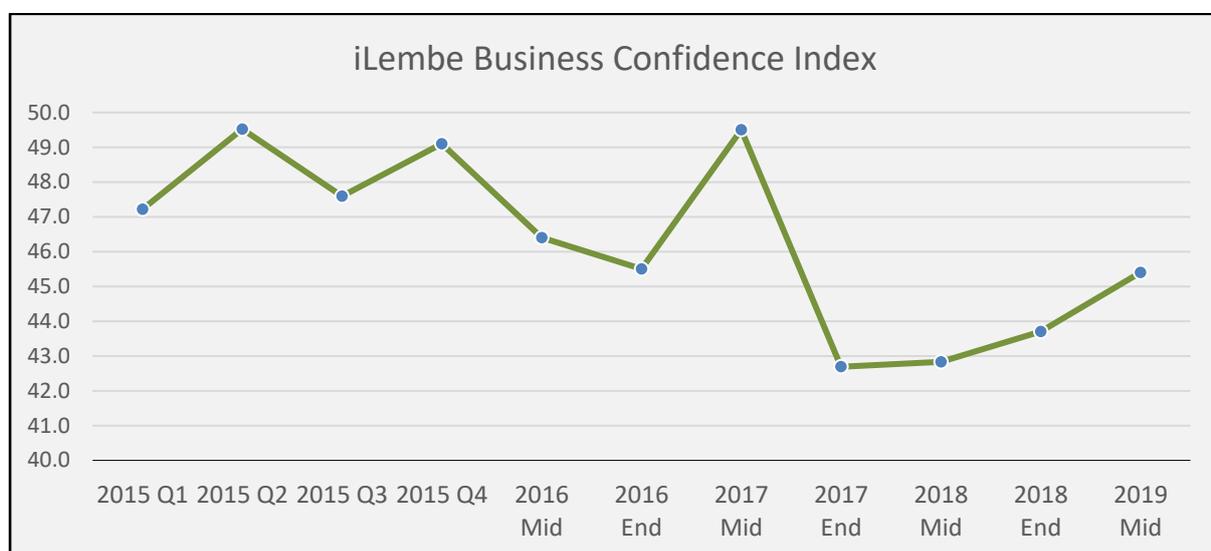
- The SACCI Business Confidence Index (BCI), with base-year 2015=100, declined to an average of 93.4 for the 1st half of 2019.
- The 1st half of 2018 averaged 96.7 and manifest the period after the election of new leadership for the governing party. The SACCI BCI started on an exceptionally high level of 99.7 in January 2018, but gradually declined throughout 2018 to 95.2 in December 2018 and to measure 93.3 in June 2019.
- The decline in the SACCI BCI from January 2018 followed on the reality of structural economic adjustments that will be necessary to put the economy on a higher growth trajectory and to ensure policy certainty and consistency.
- Despite no further downgrades by reputable credit rating agencies, 61 percent of the business climate indicators of the SACCI BCI weakened between December 2018 and June 2019.
- The major challenges for South Africa’s economy remain dwindling economic growth; structural public finance deficiencies; public sector maladministration, institutional incapacity and corruption; high unemployment; and inadequate fixed investment by the private sector and foreign investors. The debate on the land reform and the possible amendment to the Constitution continued to sow uncertainty on and inconsistency of economic policy.

2. Review of iBCI 2019 Mid-Year

Business confidence in the iLembe District, as measured through the iBCI, has shown a further increase in the 1st half of 2019 to record the highest level of business confidence in the district in two years.

The combined hybrid iBCI (i.e. both the survey and activity indices) for this period showed a positive adjustment of 1.7 index points, compared to the 2nd half of 2018. The index has now gained a moderate 2.7 points since its lowest level ever, recorded in the 2nd half of 2017. It is however at its highest level since the 1st half of 2017.

The iBCI 2019 Mid-Year was recorded at 45.4 index points, but despite the positive adjustment remains entrenched in negative territory, i.e. below the neutral level of 50 index points.



iBCI 2019 Mid-Year Survey Component:

The 42.1 index points, of the survey component, is still a considerable 10.3 index points below the 1st half of 2017, the highest ever recorded survey index.

Despite sentiments around all the **business indicators** included in the survey remaining in the negative; outlooks around *Levels of Employment* (47.3;>8.8), *Inventory Levels* (43.9;>6.6) and *Order Book* (40.8;>3) all showed positive gains on the previous six-month period.

The level of improved business sentiment around *Levels of Employment* was especially encouraging, amidst the worst national employment figures released recently, and would be a welcome boost if it could be converted into reality.

Late Delivery of Orders (>1.8) and *Sales Volumes* (>1.8) also recorded positive gains.

With regards to business confidence **per economic sector**, *Financial & Business Services, incl IT & Communications* (46;>7) featured as the most confident economic sector.

The *Agriculture, Forestry, Hunting* sector (45.4;>2.6) remained the second most confident sector, the same as in the previous half year period.

It is deduced from observations associated with this industry that confidence continues to be negatively affected by policy uncertainty around, and the impact of, expropriation without compensation, the level of the sugar price and sugar imports especially.

On the positive side, opportunities to diversify revenue opportunities through alternative crops and renewed interest in ethanol contributed to the upbeat sentiment of this sector.

The confidence of the *Construction, Property Development, Property Sales* sector (43.3 ;>10.5), a key sector in the iLembe District's economy, showed a recovery after being one of the least confident sectors in the previous 6-month period. Negative sentiments continue to be substantiated by delayed planning approvals, unwieldy building control processes and apathy towards the time sensitivity of property development. In addition, the development of infrastructure, increasing concern about the capacity of the road infrastructure and resulting traffic congestion, work disruptions, stoppages and extortion by "business forums" and land occupations contributed to the prevailing sentiment.

The *Manufacturing, Assembly* sector's woes continue, with the ongoing spates of industrial unrest, community protests and interference with business, specifically in the Isithebe Industrial Estate, the industrial heartland of the iLembe District, weighing down the sentiment of this sector.

Manufacturing, Assembly (41.3;>2.3) is now the 4th most confident sector, having been the most confident sector a mere 18 months ago.

The period preceding the May 2019 elections saw significant disruption to business operations and damage to industrial property in the wider Isithebe region, primarily related to political discord prior to the elections.

Confidence was also not aided by the conclusion of the Whirlpool sale of its South African operations, and the announcement by at least one significant employer that it is discontinuing its operations in Isithebe.

Confidence of businesses in the *Wholesale, Retail, Vehicle Trade* sector (40.2;-0) remained unchanged. Sentiment in this sector was underpinned by ongoing concerns about the size of the local market, with the restaurant/food sectors being singled out. The high cost of retail space, and the cost of amenities and level of municipal property rates exacerbated the pressure on businesses operating in this sector.

The negative confidence surrounding the *Tourism, Catering, Accommodation, Property Management* (40;<1.3) sector prevailed, with this sector dropping to the 2nd least confident sector.

Despite the continued popularity of the KZN North Coast as a tourist and event tourism destination, crime levels (including petty crime), the disregard for municipal by-laws and the associated anti-social behaviour impacted the perception that the "*safety of tourists are at an all-time low*".

The renewed targeting of HGV and long distance drivers, road blockages, and the impact of poorly maintained roads on the cost of maintenance, amongst others, resulted in the *Transport, Warehousing, Storage* (25.6;>18.7) sector recording the biggest drop in business confidence, dropping from the most confidence sector in the previous period, to being the least confident.

Despite increased business confidence within certain sectors, all economic sectors remained entrenched in the negative, i.e. below the neutral level of 50 index points.

With regards to business sentiment **per region** within the iLembe District, the two smaller local municipalities were the most confident, with the business confidence in the Maphumulo (85;-0) and Ndwedwe (50;>13.5) Local Municipalities the only regions in positive territory.

The Mandeni Local Municipality (35.8;<4.2), the district's most confident region in the previous period, has dropped to the least confident region in the district. The reasons for this sentiment was detailed above, with one respondent summarising the sentiment as "*the worst market conditions in (the) last 25 years*".

Overall business confidence in the KwaDukuza Local Municipal area (42.2;>5.3) remained firmly entrenched in the negative, despite an improvement in sentiment.

The sentiments expressed, reflective of the diverse nature of industry in this municipal area, included "*asset*" theft, political protests and unrest, poor service delivery, the cost of doing business and overtrading within certain sectors.

iBCI 2019 Mid-Year Business Expectations:

The iBCI survey also reflects on business expectations and outlook over the next six months.

The business outlook for the 6-month period July – December 2019 was recorded at a positive, two-year high of 54.1, a full 13.6 index points up from the all-time low of 40.5 index points recorded for the previous period.

This positive business expectation is a much-needed retort to the negative sentiments expressed through the Survey and the Activity Index components of the iBCI.

Apart from *Late delivery of orders*, all **business indicators**, were firmly in the positive, with positive sentiment being led by *Input Prices*, *Order Book* and *Sales Volumes*.

With regards to expectations per **business sector**, it was encouraging to note that the business expectations of five sectors, over the next 6 months, is positive, being led by *Agriculture, Forestry, Hunting* (64.2), and the *Construction, Property Development, Property Sales* (60.6) sectors.

The *Manufacturing, Assembly* (50.7) sector also had a positive outlook for the next 6 months.

Of the **regions**, businesses in the KwaDukuza Local Municipal (56.8) area recorded a positive outlook, with businesses in the Mandeni (42.3) area remaining pessimistic about the region's business short-term future.

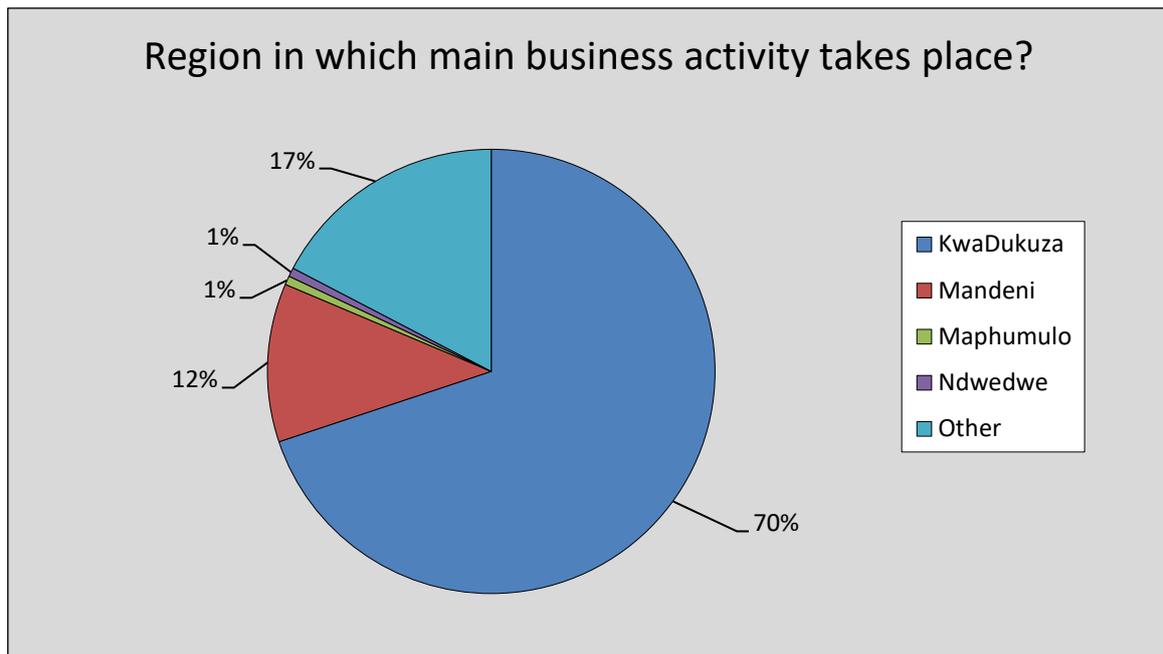
iBCI 2019 Mid-Year Activity Index Component:

The iBCI Activity Index lost .6 index points, from the previous period, to record a negative 48.7 index points.

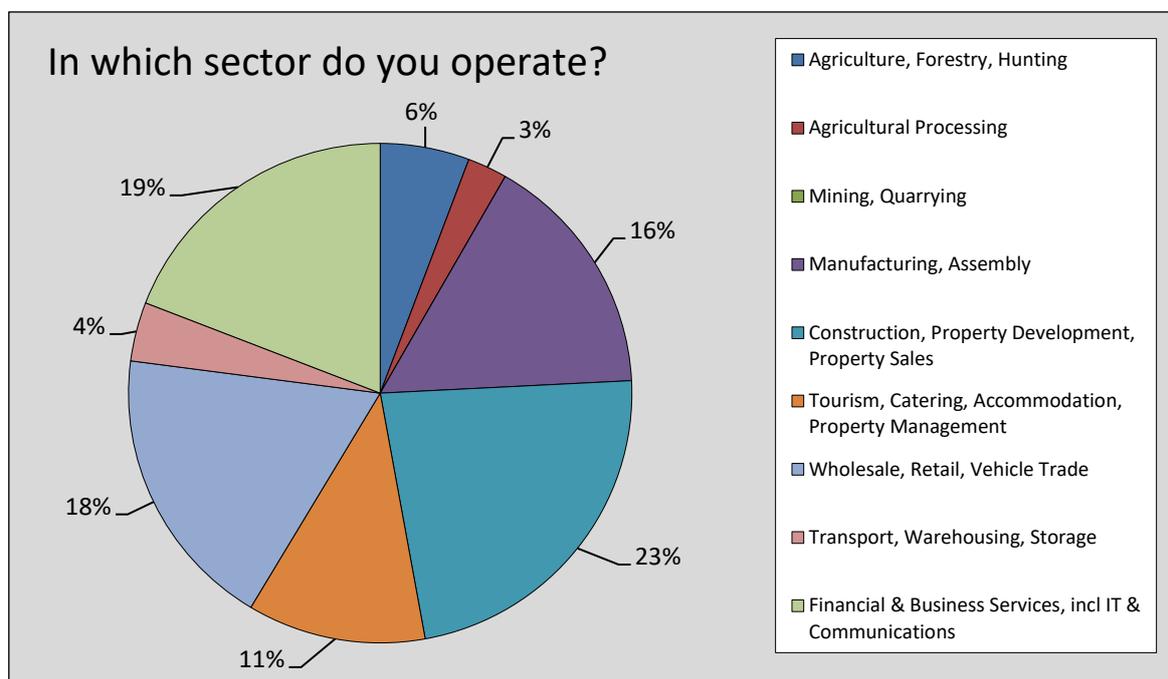
In the 1st half of 2019, the indicators measuring the business climate and economic activity in the iLembe region (detailed in Annexure 2 below), showed a combination of positive and negative effects. In comparing the 1st half of 2019 with the 2nd six months of 2018, *Construction* (-3.8) activity, *US\$ Sugar Price (Europe)* (-1.9) and the *Number of Tourists* (-1.7) showed the largest negative impact on the region's measured economic activity.

Finance Business Borrowing (+1.7) was the only economic activity that positively added to the business climate within the iLembe District.

iBCI survey responses from iLembe sub-regions:

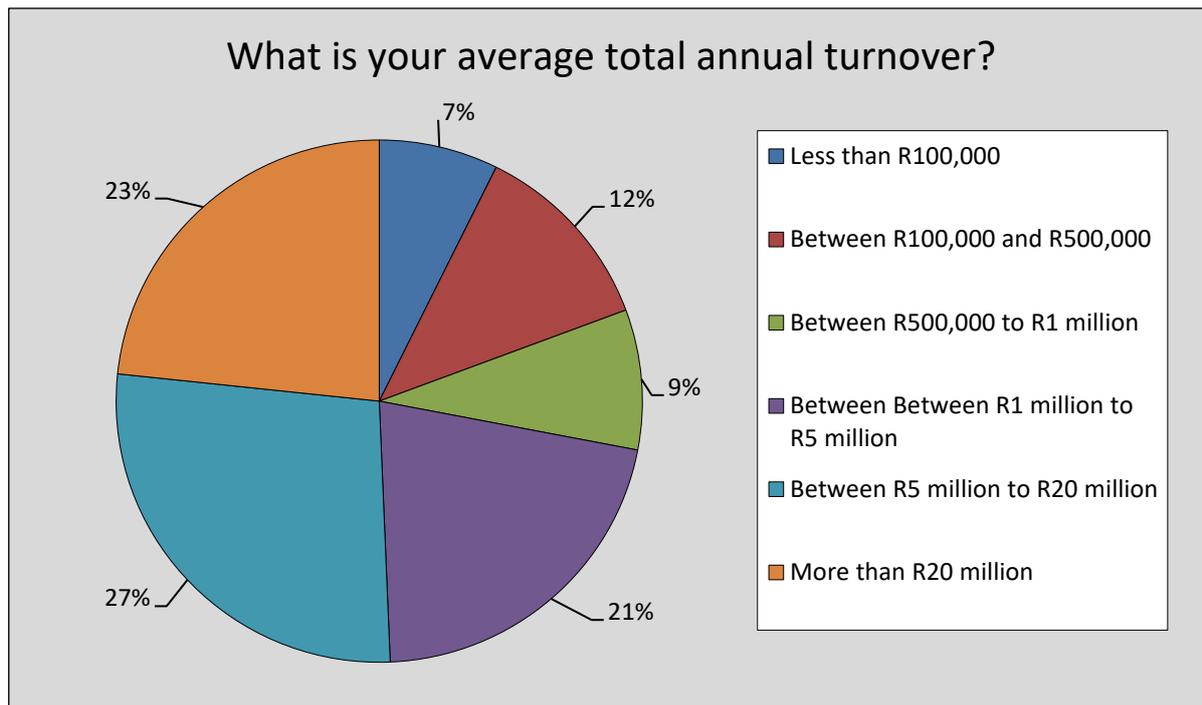


Economic sector participation in the iBCI survey:

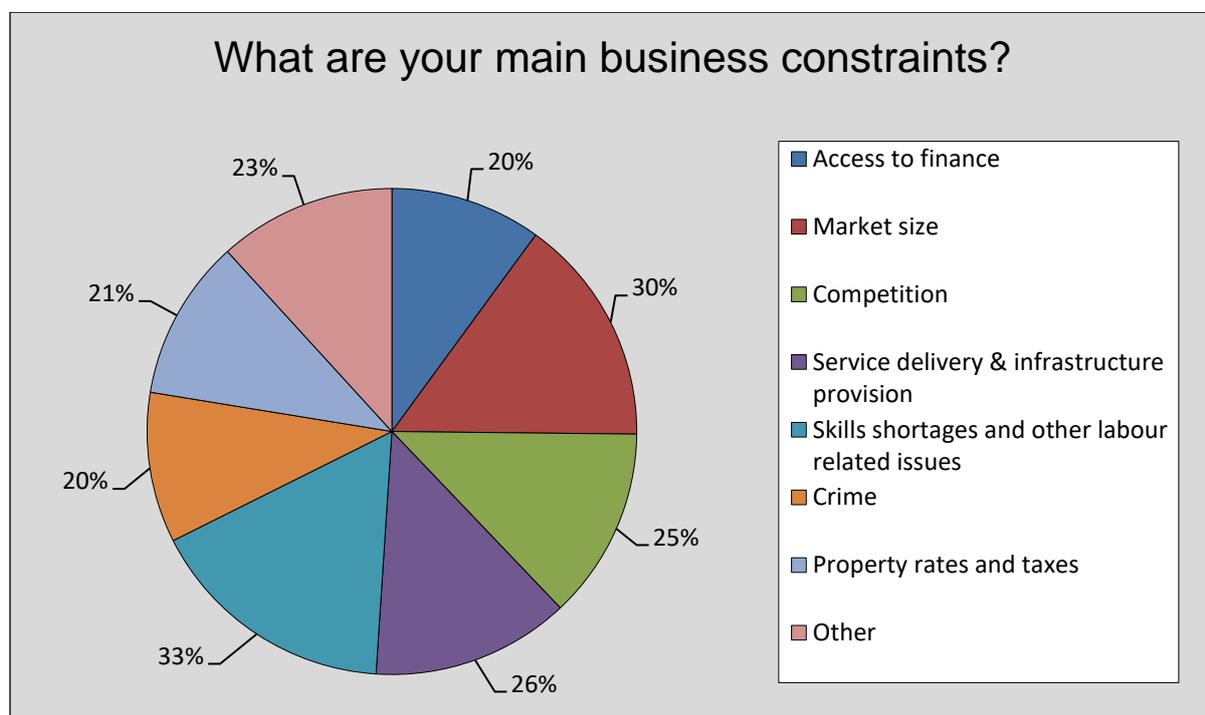


The majority of businesses participating in the 2019 Mid-Year iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (23%), followed by *Financial & Business Services, incl IT & Communications* (19%), *Wholesale, Retail, Vehicle Trade* (18%), *Manufacturing, Assembly* (16%) and *Tourism, Catering, Accommodation, Property Management* (11%).

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



The sluggish national economy, the related low economic confidence and the disrupted regional trading environment resulted in the two market related indicators of *Competition* and *Market Size* jointly being the most significant business constraints selected by 55% of participating businesses.

33% of survey respondents listed *Skills shortages and other labour related issues* as primary business constraints.

Service delivery & infrastructure provision was a perceived business constraint of 26% of respondents. The cost of development, cumbersome and inefficient administrative and planning approval processes, speed of decision making and decaying infrastructure in established industrial precincts were highlighted as specific contributors to this business constraint.

With liquidity and the cost of business ongoing concerns to local businesses, 21% of respondents listed the level of *Property rates and taxes* as a primary constraint.

3. SACCI BCI

The SACCI Business Confidence Index (BCI), with base-year 2015=100, registered an average of 94.3 for the 2nd half of 2018 and declined to an average of 93.4 for the 1st half of 2019 – 0.9 index points lower.

The 1st half of 2018 averaged 96.7 and manifest the period after the election of new leadership for the governing party. The SACCI BCI started on an exceptionally high level of 99.7 in January 2018, but gradually declined throughout 2018 to 95.2 in December 2018 and to measure 93.3 in June 2019. The decline in the SACCI BCI from January 2018 followed on the reality of structural economic adjustments that will be necessary to put the economy on a higher growth trajectory and to ensure policy certainty and consistency.

Despite no further downgrades by reputable credit rating agencies, 61 percent of the business climate indicators of the SACCI BCI weakened between December 2018 and June 2019. Compared to only four of the thirteen sub-indices of the SACCI BCI that made positive contributions to the SACCI BCI between June 2018 and December 2018, eight of the thirteen indicators were positive between December 2018 and June 2019. Four of the thirteen sub-indices improved between June 2018 and June 2019 (volume of credit extended; global price of precious metals; volume of building plans passed; and manufacturing output); and nine turned negative.

The major challenges for South Africa's economy remain with dwindling economic growth; structural public finance deficiencies; public sector maladministration, institutional incapacity and corruption; high unemployment; and inadequate fixed investment by the private sector and foreign investors. The debate on the land reform and the possible amendment to the Constitution continued to sow uncertainty on and inconsistency of economic policy.

The continued poor performance by the domestic economy in the 1st quarter of 2019 (GDP decline of 3.2% Q/Q on a seasonally adjusted annual rate) are stressing inevitability of structural economic adjustment and realignment. The dire straits of State-Owned Enterprise (SOE) service delivery and the financial doldrums of public sector institutions are seriously inhibiting economic performance.

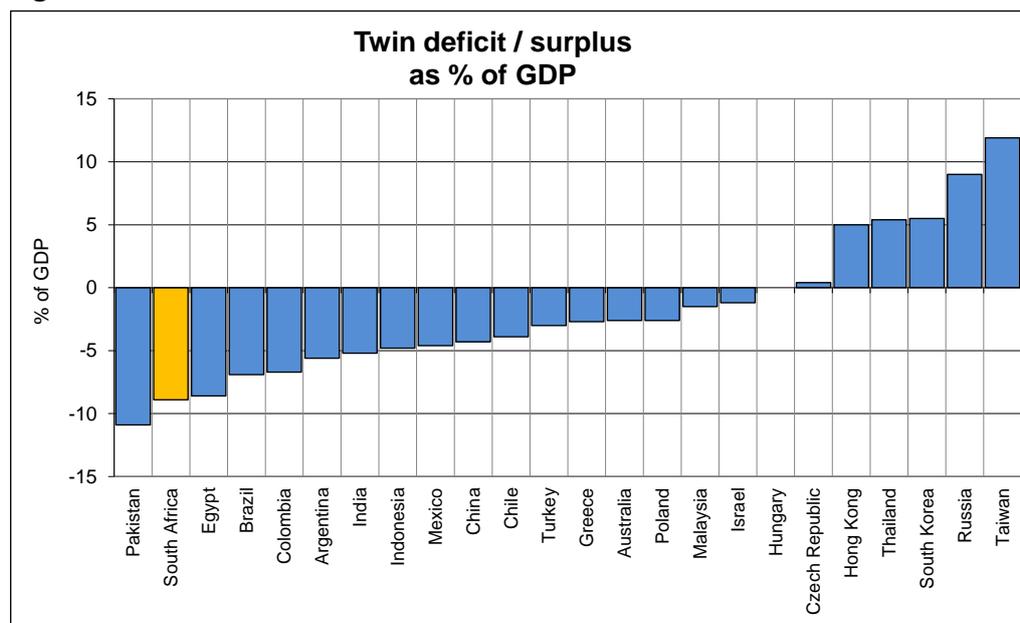
A number of structural deficiencies need to be mentioned:

- Total tax / GDP – now 28.8% from 26.7% in 2013
- Public sector borrowing requirement / GDP – now 6.3% from 5.6% in 2013

- Budget deficit / GDP – now 5.8% from 4.8% in 2013
- Net foreign investment flows / GDP – now -0.8% from +5.2% in 2013
- Gross capital formation / GDP – now -0.8% from +21.2% in 2013.

Apart from the pointers above indicating structural challenges, it is also worthwhile to note South Africa’s relative position to its peer group of countries. Figure 1 implies South Africa’s unsavoury position as far as its public finance and international trade balances are concerned. It is clear that South Africa will need an urgent resolve to improve its relative position.

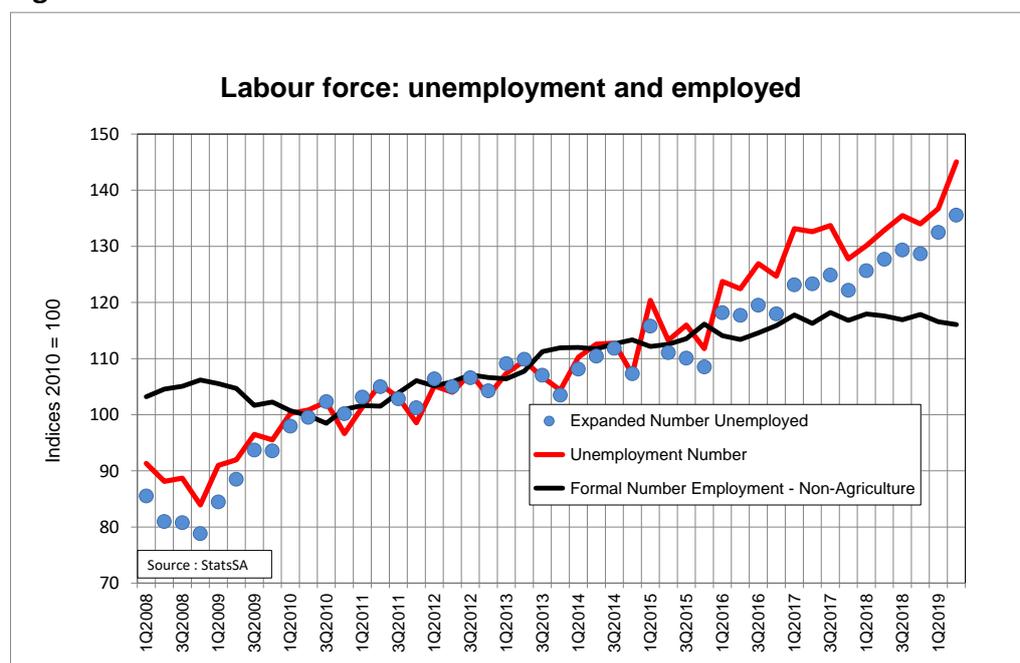
Figure 1



Source: The Economist, 22 June 2019

In the end real economic growth and employment are critical elements for ultimate results. At present the aggregates on employment and unemployment reveals its own paradigm.

Figure 2



Source: StatSA, July 2019

4. Conclusion

At national level the continued poor performance by the domestic economy in the 1st quarter of 2019 (GDP decline of 3.2% Q/Q on a seasonally adjusted annual rate) are stressing inevitability of structural economic adjustment and realignment.

The dire straits of State-Owned Enterprise (SOE) service delivery and the financial doldrums of public sector institutions are seriously inhibiting economic performance.

The private sector and all levels of government within the iLembe District are committed to partnering on specific initiatives that will aid the viability and growth of small and medium enterprises and secure investment in key economic sectors and geographies in our district.

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Annexure 1 - Background

The iLembe District Municipality is situated on the east coast of South Africa and is one of the 11 district municipalities of the KwaZulu-Natal province. It is the smallest district municipality in the province, measured by population. There are four local municipalities within the iLembe District, i.e. KwaDukuza, Maphumulo, Ndwedwe and Mandeni.

Enterprise iLembe (EI) is the Economic Development Agency of the iLembe District Municipality with its key mandate to drive economic development and to promote of trade and investment.

The iLembe Chamber of Commerce, Industry & Tourism (iCCIT) is a business association that supports businesses, in the iLembe District, to optimise their commercial potential.

The compiling of the iLembe Business Confidence Index (iBCI) forms part of a wider collaboration between the iCCIT and EI aimed at presenting regional economic indicators and intelligence that will support economic development and investment promotion in iLembe. It also aims to assist stakeholders, both in the private and the public sector, by providing indicators that will assist with business attraction and retention.

The iBCI is a biannual index that reflects on the business climate in the iLembe District. The index considers economic and market-related aspects that have a bearing on the business mood in iLembe.

It is likely that a region's business mood will be influenced both positively and negatively by various developments in markets and the economy as a whole and the iBCI seeks to reflect the net results of these influences.

The measurement of business confidence is considered significant since it indicates the current and expected state of a region's economy.

It is widely recognised that business leader's subjective, individual expectations play a key role in economic developments. It also considered as a very good leading indicator of the overall business cycle in South Africa and its regions.

The iBCI is generated by iCCIT and Econdow on behalf of Enterprise iLembe. Econdow are the economists that compile the Business Confidence Index (BCI) of the South African Chamber of Commerce and Industry (SACCI). The SACCI BCI is one of the foremost business confidence indices in South Africa and the iBCI will be interpreted against this measurement of the broader business mood in South Africa.

The SACCI BCI was first published in 1985 and there have been various updates to the BCI with the latest revision in February 2011. As a result, the BCI is now calculated according to an updated composition of sub-indices based in 2010 as 100. The latest update ensured that the SACCI BCI has a contemporary reference point (base year of 2010) and relate to up-to-date information on the economy and markets.

Annexure 2 - Methodology

The iBCI is a hybrid index derived from, firstly, a biannual business survey conducted in the iLembe district and facilitated by the iCCIT on behalf of Enterprise iLembe. It is combined, secondly, with a weighted index of financial and economic variables. Economic and market data are used to calculate the 8 (eight) sub-indices that make up the combined weighted index part of the iBCI. The indicators monitored are considered to have a significant bearing on the business mood and climate in iLembe. However, changing economic and business circumstances could necessitate updating and reassessing the indicators that are important to business in the area.

This composite iBCI merges the business survey and the combined weighted index into one business confidence measurement of the business mood in the iLembe district.

Technical features of the iBCI:

- The iBCI is a composite hybrid index;
- The iBCI includes a biannual business survey conducted amongst businesses in the iLembe District;
- It incorporates the combined weighted index of 8 sub-indices;
- The iBCI is built from the bottom up:
 - incorporating the four sub-regions that make up the iLembe District;
 - regional iBCI weighted according to most prominent activities in the sub-regions;
 - data collected from various sources. i.e. StatsSA, the IMF and the SA Reserve Bank;
 - iBCI is weighted according to regional economic contribution of each region, and
 - on a quarterly basis changes in iLembe activity is merged with survey results.

The iBCI business survey:

The iBCI survey covers nine major economic sectors and focuses on perceived business constraints and expected business conditions. Business conditions are represented through eight elements, amongst others expected changes in sales volumes, orders, sales prices and employment levels.

The survey results are obtained from electronic questionnaires completed by senior managers and business owners during the last month of every six-month period. The sample of respondents remains the same from one survey to the next.

The survey questionnaire contains qualitative questions and no figures or data are requested. Survey responses provide unique information, such as business confidence, rating of business conditions and respondents' expectations (or forecasts) for the next six-month period, for which no official figures exist.

The business survey results are processed as follows:

- Weighted into a combined survey index covering sales volumes (0.25), new orders (0.3), supplier deliveries (0.15), inventory levels (0.1) and employment (0.2);
- Survey results are recorded as up, same or down;
- The index at 0 indicates an extreme lack of confidence, 50 indicates neutrality and 100 indicate extreme confidence. If the index records 0, it implies that all respondents have indicated that business conditions are down; if 50 all respondents on average indicate that business conditions are unchanged; and if 100 all respondents indicate business conditions are upbeat, and

- An increase in business confidence indicates that economic activity in the area could improve in the medium term. The opposite applies if confidence declines. The change in the index between quarters gives an indication of a deterioration or an improvement in the business climate.

Business confidence tends to rise when the increase in business activity matches or surpasses previous expectations and the external environment (e.g. the political situation in South Africa, economic policy, the world economy) remains relatively stable.

Low business confidence could be the result of uncertainty about business prospects and/or dissatisfaction with current business performance. This may reflect uncertainty about the macro-environment within which the company operates and/or that business activity (e.g. sales, orders, production and new contracts) is low.

The Combined Weighted Index:

The following sub-indices are contained in the combined iBCI:

- The exchange rate of the rand against the US dollar;
- Consumer inflation rate for metropolitan and urban areas excluding food, non-alcoholic beverages and petrol;
- Retail sales volumes;
- Volume of manufacturing output;
- Real value of private sector building plans passed;
- US dollar sugar price;
- Business borrowing from the banking sector, and
- Number of holiday tourists.